

## THE SUPPLY QUESTION

House prices are gaining momentum in many parts of the UK on the back of renewed economic confidence and looser credit conditions. A lack of supply in the market is helping to push up values. Gráinne Gilmore examines the trends:

### Key facts April 2014

**UK house prices rose by 0.4% in March**, taking the annual rate of growth to 9.4% according to Nationwide

**Prices in prime central London rose at an annual rate of 7.5%** in March

**Prime country house prices rose by 1.9% in Q1 2014**, taking the annual increase to 4.5%

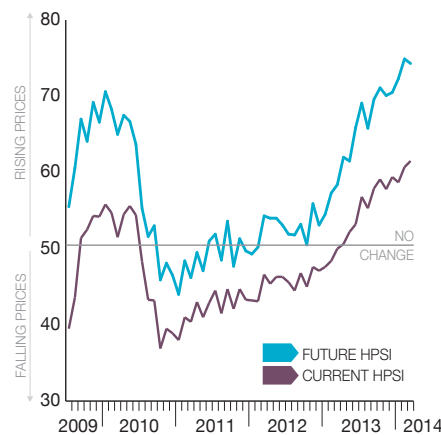
**Prime Scottish property values climbed by 2.8%** in the year to the end of March

**Prime Central London rents rose by 0.2% in March**, taking the annual change to -2%

### Regional picture

UK house prices rose by 9.4% in the year to the end of March, according to Nationwide data. The data from other UK house price indices may show a slightly slower rate of growth, but there is no doubt that prices are on an upward trajectory. There is also increasing confidence among households that prices are set to rise further over the next 12 months, according to the latest Knight Frank/Markit House Price Sentiment Index.

### Change in current and future value of property (HPSI)



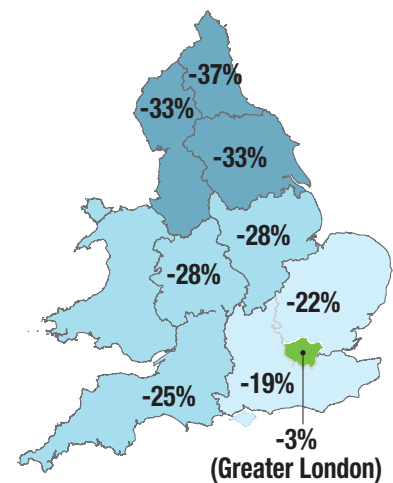
Source: Knight Frank Residential Research / Markit Economics

NB: A score of 50 equates to no change, above or below representing growth or decline respectively.

However there are marked regional differences in price movements across the country. When compared against prices during the previous peak of the market, Land Registry data shows that while London is nearly at the same level, prices in the North East are still 24% lower. When the effects of inflation are taken into account, the results are even more stark, with the average value of a home in the South West around 25% below peak levels and properties in the North East some 37% lower.

### Real house price changes: England

2007 peak to present



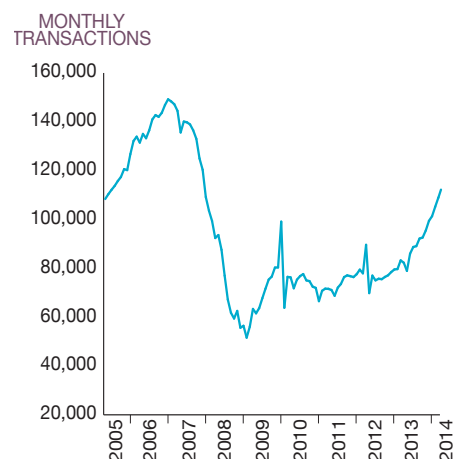
Source: Knight Frank Residential Research/Land Registry

### Buyers back

The appetite for housing has risen across the country, with agents reporting sharp increases in buyer interest. Applicants for Knight Frank's UK properties have risen by 21% over the last year. The demand for housing across all UK markets has led to a rise in transactions, as shown below.

### UK transactions picking up

£40,000+ residential property transactions



Source: Knight Frank Residential Research/HMRC



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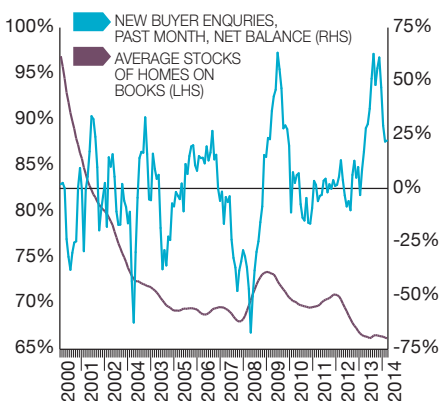
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## Supply

At the same time, stock levels are generally low. So while transactions are picking up, this is to some extent a reflection of increased activity among first-time buyers as well as home movers. Cash buyers – downsizers, for example – and investors who do not need to sell their home to fund a purchase are also active in the market at present.

### Demand vs supply

RICS survey: April 2014 England and Wales



Source: Knight Frank Residential Research/ Macrobond/RICS

## Prime markets

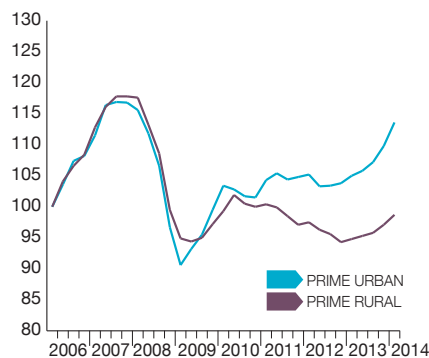
The differential between prime central London and prime country houses is close to the widest it has ever been, but prime country house prices are starting to show some growth, after staying broadly unchanged in the wake of the financial crisis. Digging into the data however shows that prices of prime homes in or close to town have risen more quickly than rural properties over the last year.

Prime property price rises in Edinburgh have been leading the wider prime Scottish market for several years now.

Prime central London property prices rose by 7.5% over the last 12 months, while prices in prime outer London, including areas such as Wandsworth, Canary Wharf

### Prime urban v prime rural

Performances of town and city markets versus rural (Q1 2006 - Q1 2014)

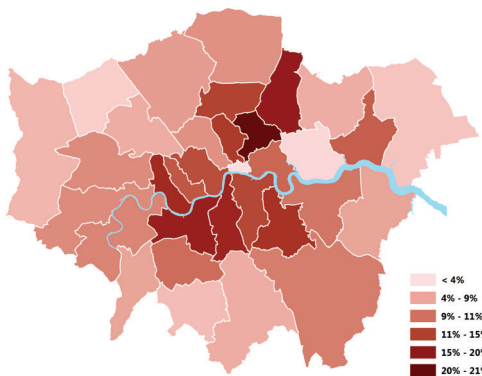


Source: Knight Frank Residential Research

and Wimbledon, rose by 11.5%. This reflects the “doughnut” effect in London, where areas outside the prime central areas are now experiencing the strongest price growth, as seen in the map below.

### London house price changes

(Jan 2013-Feb 2014)



Source: Knight Frank Residential Research/Land Registry

## Rental market

Prime central London rents rose by 0.1% in the first quarter of the year, amid improving business confidence in the City. Total returns for PCL rental property was 10.5% in the year to March.

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